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SUBJECT: OECD: MISSION VIEWS ON ENLARGEMENT

SUBJECT: OECD: FEBRUARY 5 DISCUSSION OF ENLARGEMENT AND ENHANCED
ENGAGEMENT - COUNCIL IS DIVIDED

REF: (A) EUR/ERA LUFTMAN'S E-MAIL (2/5/2007), (B) PARIS 431
(NOTAL), (C) PARIS 371 (NOTAL), (D) PARIS 312

11. (SBU) SUMMARY: OECD members are divided on a number of key issues regarding enlargement and enhanced engagement. A February 5 Council discussion highlighted differing views on how to deal with the BRICS, whether Russia should be invited to begin discussions on accession negotiations, whether EU membership implies special status, the need to ensure greater global balance, and the definition of enhanced engagement. New Zealand declared that it could not agree to opening negotiations with Israel, based on human rights concerns. Only Chile appears to command consensus as a candidate for near term membership. OECD members are also grappling with how enlargement and enhanced engagement are to be financed, trying to balance the principle of capacity to pay with that of covering the costs and benefits of membership. The Secretary General's draft concept paper on enlargement will be revised based on the February 5 discussion and circulated prior to the February 20 Council which will be attended by representatives from capitals.
END SUMMARY.

12. (SBU) The OECD Council engaged in a three hour discussion of Secretary General (SYG) Gurria's latest informal draft paper on

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enlargement and enhanced engagement on February 5. The SYG noted that recent developments including visits by Russian Federation Deputy FM Denisov (Ref C) and the Chinese vice-minister for trade, his own discussions on the margins of Davos with Israeli and other representatives, as well as several consultations with EU representatives had helped shape this draft. He stressed that while the paper tried to reflect as much as possible most delegations' points of view, it was not a mandate for enlargement but rather identified possible elements of a mandate. He noted that the paper remained a work in progress - with each draft being a refinement of previous discussion and consultation. The SYG pointed out that two key issues need additional work: (a) defining the concept of enhanced engagement and its relationship to accession, and (b) financing of enlargement and enhanced engagement.

13. (SBU) The Australian Ambassador, who was the first to comment, said she was disappointed with the thrust of the paper, which she labeled a "political" document. Major flaws included lack of any mention of the Noboru criteria and a focus on Europe. She was especially concerned that neither Thailand nor Indonesia was mentioned and that Southeast Asian countries were lumped together with Egypt and Morocco. In particular, she saw no reason to elevate Russia among the BRICS and questioned what appeared to be a subjective recommendation to open discussions with Chile, Estonia, Israel, the Russian Federation and Slovenia with a view to membership. The Korean Ambassador supported his Australian colleague regarding absence of the Noboru criteria in the paper, and expressed his disappointment with the treatment of Asian countries. He also emphasized the importance of sending a message to all/all of the BRICS that the OECD wants them in the OECD, if they so desire and meet conditions for membership. The Japanese Ambassador said that he had been shocked that Thailand and Indonesia were not included in the paper. He continued that Tokyo had concerns about the EU candidates - not sure they met all of the Noboru criteria - and did not support offering Estonia and Slovenia near term accession discussions. He agreed that the BRICS were important, but called for nuanced support, especially with respect to South Africa.

14. (SBU) New Zealand's Ambassador, speaking on instructions, joined other non-EU countries in underlining the importance of the Noboru criteria, with the bottom line for Wellington being human rights considerations. Human rights, along with free market and democracy, demonstrated like-mindedness and shared values, and each candidate needed to be considered for accession on its own merits. With this in mind, New Zealand could support opening immediate discussions with Chile, pursuing Brazil's and South Africa's interest in OECD membership and offering enhanced engagement to China and India as well as a regional enhanced engagement program to countries in SE Asia. She said that New Zealand would watch with great interest discussions regarding the EU but had taken no position on next steps. Finally, because of human rights considerations, Wellington could not accept opening discussions on possible membership with either Israel or Russia.

15. (SBU) The German representative, speaking both in his national and EU presidency capacities, offered that the SYG's paper "had room for improvement." He stressed that all of the EU-8, not just Estonia and Slovenia fulfilled the criteria for OECD membership based on the fact that they were members of the EU. It was important that EU members not be lumped in the same category as countries from Latin America and Asia. The German rep also suggested a greater emphasis on country specific rather than regional enhanced engagement programs, with special interest shown to Brazil, China and India. The Danish Ambassador expressed concern that small countries (i.e., the three Baltic countries) not be excluded and that new members must fully embrace core values if they are expected to follow OECD norms (directed at Russia and non-European nations). The EU Commission representative picked up on these themes, stating that the EU-8 should be allowed to join the OECD at some point, whether in the near, medium or long term. He stated that willingness and a clear interest in joining the OECD had to be a condition of membership. He agreed that the BRICS were key players and supported formalizing relations through strong bilateral programs and said that Brazil might be considered for accession discussions if the Brazilians displayed greater interest in the OECD.

16. (SBU) U.S. Charge Reid drew on points contained in ref A, stressing our support for immediately opening accession negotiations with Chile and Israel; expressing support for eventual Russian Federation membership, but, at this point calling only for enhanced engagement with Russia due to current political and economic trends; inviting the SYG to consult with China, Brazil, India and South Africa regarding expanded cooperation; noting that the U.S. does not have a firm view at this time with regard to the candidacies of Estonia and Slovenia; and supporting expanded cooperation and OECD programs in the Middle East, North Africa, Latin America and Asia.

17. (SBU) With the exception of Iceland, every OECD Member spoke, expressing concerns to various degrees along the lines above. The key issues about which differing views were expressed included:

- o BRICS - all Members agree that the BRICS deserve special consideration in order to ensure the OECD's continued relevance and ability to influence the global economic system. Views differ, however, as to the type of relationship to be established. All Members appear supportive of initiating a two-step process of consultations to clarify the interest of the BRICS in developing closer ties with the OECD, with this initial dialogue determining next steps, e.g., beginning an accession process. All Members appear ready to institute enhanced engagement programs with each of the BRICS, as part of what the UK Ambassador described as the need to "embrace" these key emerging economies.

- o Russian accession negotiations - two camps have emerged: those opposed or very cautious (including New Zealand, Australia, the UK, Canada, Belgium, Ireland and the U.S.) and those in favor (led by France, Turkey and the Nordic states along with Italy, Greece, Luxembourg, Poland, Spain and the SYG).

- o Chile and Israel - The only dissent over Chile's membership (and it was directed more at the draft than at the substance) came from the Australians who questioned why no mention was made of the Noboru criteria. However, New Zealand's direct opposition to Israeli accession due to human rights concerns poses a problem which will need to be addressed with Wellington. The New Zealand Ambassador told us that this decision had been taken directly by the Prime Minister. Several other delegations have noted in past discussions that Israeli membership could pose problems.

- o EU-8 - there is a definite divide between EU and non-EU

countries. The Commission and EU members assert that membership in the EU implies that all these countries are by definition like-minded and have demonstrated their interest and bona fides in joining the OECD. The EU, therefore, will not accept the mention of only Estonia and Slovenia as countries to be considered for discussions on near term accession. On the other hand, the Australians and most other non-EU countries argue that the SYG's draft is too Europe centric. (COMMENT: Given the strong views, we will look to see if the SYG refers generically to EU members in his next draft or includes the names of each of the EU-8. If he tries the latter, we can expect Turkey to object. Also, it would not be in our interest of pushing for a more global OECD if Ministers were to imply that EU membership implied eventual accession to the OECD. END COMMENT)

- o Non-EU/non-BRICS - Australia, New Zealand, Japan and Korea, and to an extent the UK and Canada, want a stronger signal sent to countries in Asia, including Thailand and Indonesia, that the OECD is open to engage with them and that the door for eventual membership remains open depending on the individual merits of each potential candidate. They believe the SYG's proposals fall short in sending the message that the OECD is serious about expanding its global role.

- o Enhanced engagement - how to strengthen the OECD's relations with the BRICS is a major element of the enlargement/enhanced engagement debate. Former Chair of the External Relations Committee (ERC), Canadian Ambassador Bourgon, observed that a key question is whether the OECD can define enhanced engagement without addressing enlargement. Should enhanced engagement be the first step on the path to eventual accession, or should it be an end in itself? The SYG's paper fails to answer this question and calls for enhanced engagement with individual countries of strategic interest and as part of existing regional programs. This led Italy and several other countries to observe that the paper was conceptually shallow, especially with respect to enhanced engagement.

18. (SBU) The SYG responded that he would carefully examine the issues raised, which he thought could be resolved by in-depth explanation and clarification, although he cautioned that certain problems (i.e., Russia) would remain. The SYG earlier made the

point that membership in other bodies (i.e., the EU) does not necessarily qualify for OECD membership, and automaticity should not be implied. EU membership is important but does not mean every EU country can join the OECD. He said that as he drafts the next version of the paper he will try to avoid acrimony but will fully lay out the issues.

¶9. (SBU) The SYG plans to provide a new draft in advance of the February 20 Council discussion of enlargement which will be attended by representatives from capitals. There is also the possibility that Council may have another opportunity to review a revised text before February 20.

Financing Questions

¶10. (SBU) Danish Ambassador Smidt, Chair of the Special Group on Financing, told the Council that there was emerging consensus on funding of start up fees and the "site project." Regarding start up, members of the Special Group agreed that candidate members should pay the non-recurring costs of accession, based on a fee negotiated between the OECD and the candidate and approved by Council. New members would not be charged for the improved "site" due to the fact the project will be completed by the time of accession and new members will be asked to help fund the Organization's historic pension liability (a liability that greatly exceeds the assets new members will assume). Smidt continued that differences remained among current Members on funding recurring costs, where the Group was attempting to balance the concepts of capacity to pay with benefits countries obtain by being a Member of the OECD (cost and value of benefits). He noted emerging consensus that part of the budget should be financed equally by all, with the size of a base fee or minimum contribution still to be determined. Smidt concluded that he would provide an oral report to the reinforced Council meeting set for February 20.

¶11. (SBU) SYG Gurria, while noting that the Council would benefit from his report, suggested that a written element would help in preparing for the February 20 meeting. This was especially true for attendees coming from capitals, who would wish to know in advance how much progress has been made. (COMMENT: As a result of the January 29 meeting of the Special Group, Smidt is aware that his proposal - a base fee of 1.25 million Euros - does not command consensus, and he is reluctant to put it in writing. At this stage, Mission believes that having a Chair's proposal on the table, without having a corresponding proposal (which the G-7 supports) for fully covering recurring costs, would prejudice the discussion. The Special Group will meet twice prior to the February 20 Council meeting and explore if further agreement on principles can be found.

We believe it best that the question of financing be kept open, especially given the lack of consensus on which, if any, countries should be asked to begin accession negotiations. END COMMENT.)

REID